

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02

PA-01 PRS-01 AGR-05 CIAE-00 COME-00 FRB-03 INR-07

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FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC 1845

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY KINGSTON

AMEMBASSY LONDON

AMEMBASSY PORT OF SPAIN

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E.O. 11652: N/A

TAGS: EAGR, EINV, GY

SUBJECT: SUGAR-BOOKES PRESSING FOR RELIEF FROM SUGAR LEVY

REF: GEORGETOWN 952

1. ACCORDING TO TOP COMPANY OFFICIAL, EARLIER THIS YEAR GOG PROMISED BRITISH-OWNED BOOKERS SUGAR ESTATES, LTD. (SOLE REMAINING LARGE FOREIGN INVESTMENT IN GUYANA) SOME RELIEF FROM THE NEAR-CONFISCATORY RATE OF SUGAR LEVY WHICH WAS IMPOSED IN 1974. NO RPT NO GOG DECISION IS YET FORTHCOMING. THIS HAS PLACED BOOKERS IN FINANCIAL BIND WHEREIN IT CAN TURN A PROFIT THIS YEAR ONLY AT THE EXPENSE OF CUTTING BACK ON NEW PLANTING, FERTILIZING, AND OTHER INPUTS WHICH ARE OTHERWISE SCHEDULED TO INCREASE RETURNS NEXT YEAR. SUCH ACTION OR RATHER INACTION, WOULD ALMOST SURELY EVOKE GOG CHARGES THAT BOOKES IS INTENTIONALLY RUNNING DOWN ITS ASSETS, AND NATIONALIZATION WOULD LOGICALLY FOLLOW. ACCORDING TO BOOKERS HOWEVER, AT THIS YEAR'S PRODUCTION COSTS PER LONG TON, COMPANY CAN ONLY MAINTAIN A PROFIT POSITION AT NET SELLING PRICE OF NO RPT NO

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LESS THAN \$240 PER LT, GIVEN CURRENT LEVY. NEXT YEAR,

ASSUMING LEVY REMAINS UNCHANGED AND AVERAGE PRICE IS AROUND STERLING 200 PER LT, AND COST OF GOODS SOLD INCREASES BY TEN PERCENT OVER THIS YEAR, BOOKERS WILL LOSE US DOLS SIX TO EIGHT MILLION.

2. COMMENT: EXTRAORDINARILY HIGH LEVY IN FACE OF FALLING WOVD SUGAR PRICE POSES DILEMMA FOR BOTH BOOKERS AND GOG. BOOKERS UNWILLING SUSTAIN FINANCIAL LOSS AND AT SAME TIME CONTINUE INDUSTRY EXPANSION PLAN WHICH SEEKS PRODUCTION TARGET OF 500,000 LT'S BY 1980. GOG FOR ITS PART WILL NEED ALL THE REVENUE IT CAN GET NEXT YEAR IN ORDER TO MEET HEAVY CURRENT EXPENDITURES WHICH WILL BE INCURRED BY EMPLOYMENT OF CAPITAL EQUIPMENT PURCHASED THIS YEAR.

3. ALTHOUGH WE BELIEVE BOOKERS HAS EXAGGERATED ITS PRODUCTION COST ESTIMATE, PROBABLY TO ALLOW MARGIN FOR BARGAINING, THERE IS NO QUESTION THAT ITS COSTS HAVE INCREASED DUE TO FUEL PRICES, WAGE INCREASES, AND GENERAL INFLATION. THE LEVY, TAKENTOGETHER WITH CORPORATE INCOMETAX, SUGAR WELFARE FUND CONTRIBUTIONS, AND MANDATORYKNDOFIT SHARING WITH SUGAR WORKERS, REDUCES BOOKERS NET PROFIT TO MUCH BELOW THE EIGHT TO TEN PERCENT OF CAPITAL EMPLOYED, WHICH IT PERCEIVES AS NECESSARY TO RMAIN IN BUSINESS. WITHOUT LEVY RLIEF, THE FIGURE THIS YEAR COULD BE AROUND ONE OR TWO PERCENT EVEN AFTER AUSTERITY MEASURES MENTIONED PARA NE, AND OF COURSE NEXT YEAR WOULD REGISTER A NET LOSS. STAGE IS NOW SET FOR CONFRONTATION BETWEEN GOG AND BOOKERS. IF GOG KEEPS ITS WORD AND REDUCES LEVY, WE SEE THIS AS EVIDENCE THT GOVT AS YET UNWILLING (FOR MAINLY ECONOMIC REASONS) TO TAKE ON COUNTRY'S LARGEST PRIVATE COMPANY. MORE RADICAL BURNHAM ADVISERS, HOWEVER, ARE NO DOUBT POINTING TO RECENTLY NATIONALIZED DEMERARA SUGAR COMPANY, AND ASKING, WHY NOT TAKE REMAINING EIGHTY PERCENT?
KREBS

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